Property Council New Zealand

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Submission on

Draft Auckland Council Revenue and Finance Policy

28/03/2023

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Auckland Council Revenue and Financing Policy 2023-2024

1. Summary

1.1 Property Council New Zealand Auckland Region ("Property Council") welcomes the opportunity to provide feedback on the proposed amendment to Auckland Council's Revenue and Finance Policy. It is critical that Auckland has a Revenue and Financing Policy that is fair and equitable to all ratepayers.

1.2 The existing Revenue and Financing Policy recognises that rating differentials are inequitable and had committed to their reduction overtime. The proposal to pause the reduction of rating differentials charges commercial ratepayers at a degree disproportionate to the level of services provided.

1.3 Property Council is extremely concerned that the proposed pause of the Long-term Differential Strategy is a slippery slope towards further delay and inaction at addressing current inequities that see Auckland business pay far more than their fair share. We urge Auckland Council to consider the wider economic landscape and the cumulative cost pressures currently facing business.

2. Recommendations

2.1 At a high level, we recommend that Auckland Council:

- Does not adopt the proposed amendment to the Revenue and Finance Policy; and
- Continues to implement the Long-term Differential Strategy ("LTDS") to reduce rating differentials as planned.

3. Introduction

3.1. Property Council is the leading not-for-profit advocate for New Zealand's most significant industry, property. Our organisational purpose is, "Together, shaping cities where communities thrive".

3.2. The property sector shapes New Zealand's social, economic and environmental fabric. Property Council advocates for the creation and retention of a well-designed, functional and sustainable built environment, in order to contribute to the overall prosperity and well-being of New Zealand.

3.3. Property is Auckland's largest industry. Property provides a direct contribution to Auckland's GDP of $12 billion (12 percent) and employment for 71,940 Auckland residents.

3.4. Property Council is the collective voice of the property industry. We connect property professionals and represent the interests of 398 Auckland based member companies across the private, public and charitable sectors.

3.5. This document provides Property Councils feedback on the [proposed amendment to Auckland Council's Revenue and Finance Policy](). Comments and recommendations are provided on issues relevant to Property Council's members.

4. Proposed pause of the Long-term Differential Strategy

4.1. Property Council is extremely disappointed to see that Auckland Council has proposed to pause the LTDS for financial year 2023–2024, given Auckland Council's longstanding commitment to reducing rating differentials.

4.2. Auckland Councils existing Revenue and Finance Policy makes clear that the commercial sector pays too high of proportion of the total rates take and acknowledges that high rating differentials hamper economic development across the city. As it stands, the commercial sector contributes 31 per cent of the total rates take and Auckland Council had previously committed to gradually lowering this to 25.8 per cent by 2037-2038.

4.3. While the LTDS is currently being implemented on an elongated timeline, Property Council members have supported it. This is because it provides certainty to the commercial sector that inequities within the rating system were being addressed. Certainty is critical for encouraging investment and economic growth across Auckland, and proposal to pause the LTDS runs the risk of opening the floodgates of uncertainty across the commercial sector.

4.4. Auckland Council figures show that pausing the LTDS will cost the average commercial property an additional $205 (1.1 per cent additional rates increase) over a 12 month period. In comparison the policy will result in a minor saving of $15 over a twelve month period for the average residential property.

4.5. Given that Auckland Council already acknowledges that the burden on the commercial sector is too high, Property Council recommends that Auckland Council does not adopt the pause to the LTDS.

<u>Cost pressure on businesses</u>

4.6. The proposed pause of the LTDS would significantly increase the costs faced by the commercial sector at a time when many businesses face significant external hindrances such as large-scale inflation, labour shortages, reduced consumer demand, increased government regulation and elongated effects of COVID-19 such as working from home. As a result of interest rate spikes, the commercial sector is also facing further pressure from increased cost of finance. All these additional costs and decreased revenue streams come at a crucial, and challenging, time for Auckland businesses. The recent extreme weather events in Auckland and nationwide, have further added to the strain.

4.7. The commercial sector provides immense benefit to Auckland residents, providing employment, producing the good and services consumed by local residents, and enabling some of Auckland's most significant industries. Pausing the LTDS will increase the cost of doing business in Auckland, disincentivising to future investment in Auckland, and will likely be passed onto the residential sector in the form of higher prices for goods and services.

4.8. Property Council are proud advocates for Auckland and want to see Auckland as a thriving destination for investment and development, as we know that a vibrant commercial sector is critical to the well-being of Aucklanders. Pausing the LTDS will threaten this ambition.

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Use of rating differentials

4.9. The use of rating differentials has been consistently opposed by Property Council. Rating differentials are an inequitable approach to generating revenue. Rating differentials are collected as general rates, leaving businesses unable to identify where the additional funds raised by differentials are spent.

4.10. We firmly disagree with Auckland Council's assertion that commercial ratepayers "place more demand on council services". In our view, rating differentials result in the commercial sector paying a disproportionate share of rates than its share of the total capital value. Furthermore, the commercial sector did not receive any greater level of benefit from Council expenditure to justify paying proportionately far more.

4.11. The existing Revenue and Financing Policy recognises that the existing rating differential in Auckland is too high and established Auckland Council's commitment to reducing the commercial sectors share of the rates take to 25.8 per cent overtime.

4.12. As an alternative to rating differentials, Property Council supports the use of transparent, beneficiary pays funding models for local government. Examples of these models include targeted rates, user-pays, and special purpose vehicles ("SPVs"). These alternatives meet the legislative principles of transparency and objectivity for funding local government set out in both the Local Government Act 2002 and Local Governing (Rating) Act 2002. Our approach is also consistent with the recommendation of the New Zealand Productivity Commission that local government should adopt a more transparent approach to rating tools and other funding sources[1].

4.13. Property Council strongly recommends that Auckland Council does not adopt the proposed amendment to the Revenue and Finance Policy and instead continues to implement the LTDS as planned.

5. Cumulative cost pressure

5.1. Property Council is deeply worried about the cumulative impact of local government policies on Auckland's property sector. We are concerned that pausing the LTDS, alongside increased general rates and the massive, proposed increases to development contributions in Drury and other Investment Priority Areas (Mt Roskill, Tāmaki, Mangere, Northcote, Oranga, CRL stations, Inner Northwest) will have a detrimental impact on future development.

5.2. It's easy to look at one proposed change and expect that it will have minimal impact, but collectively these reforms could significantly increase the cost and risk of development. We all know that Auckland is in desperate need of new housing supply, particularly that of an affordable nature. By escalating costs for future developments Auckland Council run the significant risk of creating a 'perfect storm' for housing supply and affordability.

[1] Local government funding and financing. Retrieved from https://www.productivity.govt.nz/inquiries/localgovernment-funding-and-financing/

6. Conclusion

6.1. Property Council is extremely concerned regarding the proposed pause of the LTDS, given the harmful effect it will have on Auckland businesses. Property Council strongly recommends that Auckland Council does not adopt the proposed amendment to the Revenue and Finance Policy and instead continues to implement the LTDS.

6.2. Property Council members invest, own, and develop property in Auckland. We are extremely concerned regarding the proposed pause of the LTDS, given the harmful effect it will have on Auckland businesses.

6.3. We wish to thank Auckland Council for the opportunity to submit on the proposed amendment to Auckland Council's Revenue and Finance Policy as this gives our members a chance to have their say in the future of our city.

6.4. Any further enquires do not hesitate to contact Logan Rainey, Advocacy Advisor, via email: Logan@propertynz.co.nz or cell: 021410787.

Yours Sincerely,

Martin Cooper
Auckland Committee Chair